LEGISLATIVE FISCAL OFFICE
Streamlining Commission Analysis

Louisiana Legislative Fiscal Office Fiscal Notes

Recommendation No. **RECOMMENDATION 170**
Streamlining Draft **AGDONAHUE 2**

Date: January 27, 2010 10:09 AM
Dept./Agy.: Statewide
Subject: Full Cost Recovery
Author:
Analyst: Travis McIlwain

Certain government services and processes be identified as activities to be funded in whole or in part through "full cost recovery" of expenses by the user or customer; that the criteria for setting the amount of cost recovery be established in consultation with the Society of Louisiana Certified Public Accountants; and the data and information used, as well as the process employed to calculate the specific charge, and any audits thereof, be displayed on the department's or agency's website.

EXPENDITURES	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Ded./Other	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Federal Funds	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Ded./Other	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Federal Funds	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

In the absence of exact criteria of full cost recovery as recommended, an accurate analysis cannot be determined as the specific details of such criteria will determine the impact. Thus, the specific fiscal impact of this recommendation is indeterminable. Applying the full cost recovery method statewide will ultimately depend upon policy decisions made by the governor and the legislature. The specific policy decisions to be made include: 1.) What specific state services should be completely funded by users (payers of specific fees for state service) and how much of an increase/decrease should the users reasonably incur, 2.) What specific state services should be completely funded by taxpayer (payers of sales tax, income tax, etc.), 3.) What specific state services should include a mixture of the two, 4.) What indirect costs are appropriate to fund with this revenue, 5.) The programs to be funded and scale of services provided in the programs.

According to the Society of Louisiana Certified Public Accountants' conceptual framework for full cost recovery, all direct costs and major indirect costs should be included in determining the appropriate fee to be charged. The specific direct costs that should be included within each departments' analysis of this concept is as follows: 1.) salaries of those involved in the state service, 2.) all benefits associated with those employees, 3.) cost of materials used in the activity, 4.) cost of equipment utilized, 5.) other various costs including travel, training, professional services. The indirect costs that should be included within each departments' analysis of this concept include: a pro rata share of the items listed as direct costs as well as utilities, rent, etc. Thus, the appropriate fee to charge for the state service user is the sum of the direct costs and indirect costs (cost of providing the state service). To the extent cost projections are correct, no profit (surplus) shall be generated.

Although the framework as described by the Society of LA CPAs involves no profit generation, collection of fees cannot be predicted to such an exact measure that would allow practical budgeting. These funds typically carry a balance to make up for the possibility of shortfalls or seasonality/fluctuations in revenue collection. If the official full cost recovery concept does not allow for the carryforward of fund balances, there is the possibility that the programs may need to scale back or curtail operations midyear or require the infusion of state general fund (Treasury Seed) in order to continue if fee collections do not meet the expectations upon which the budget is based. For this reason, the specific impact of this recommendation is indeterminable and is contingent upon the statewide application of such a concept.

The Mercatus Center defines full cost recovery as "a matter of equity to shift cost from the taxpayer to the user or vice-a-versa as it is a mechanism to diminish budget expenditures." For illustrative purposes, **(cont. page 2)**

REVENUE EXPLANATION

Depending upon the specific criteria of full cost recovery, as defined by the governor and/or legislature, fees charged by specific departments could increase or decrease. For those programs that utilize state general fund and fee revenues, a fee increase may be implemented. For those programs that generate surplus from their fee collections, a fee decrease may be implemented.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

H. Gordon Monk

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CONTINUED EXPLANATION from page one:

the information below depicts specific departmental financing examples of implementing the full cost recovery method as defined by the Mercatus Center. The examples are grouped as follows: 1.) Examples of those entities currently operating at or intending to operate at full cost recovery or greater, 2.) Examples those entities not operating at full cost recovery wherein increases/decreases may be necessary when practical. The illustrations below are examples and not meant to be a full state analysis.

Examples of entities currently operating or intending to operate at full cost recovery or greater:

Dept. of Insurance (DOI): Historically, the DOI annually returns to the state general fund approximately $8.0 million to $14.0 million annually of fees and self-generated revenue collections collected beyond legislatively appropriated expenditure authority. For example, in FY 08 DOI reverted approximately $11.5 million and in FY 09 reverted $14.4 million to the state general fund. To the extent the DOI began to operate on a full cost recovery basis, the DOI would have to reduce its fees. However, such a modification would decrease the current adopted SGF revenue forecast. Currently included within the latest adopted revenue forecast is a revenue source titled "Agency SGR Over-collections." Included within this revenue source are anticipated state general fund reversions from the DOI and the Public Service Commission. These fee overcollections currently fund other items in the state budget not necessarily associated with regulating the Louisiana insurance industry.

Dept. of Environmental Quality (DEQ), Dept. of Wildlife & Fisheries (WLF): The preponderance of these 2 departments' state effort means of finance is fee based and by FY 11 will have little to no state general fund support. In FY 10, WLF was appropriated a total of $175.3 million of which only $100,000 was state general fund for special salvania eradication, while the remaining majority funding was $86.0 million statutory dedications. In FY 10, DEQ was appropriated $150.6 million of which $4.3 million was state general fund, and this SGF has been used to "cover" additional costs incurred by DEQ due to being housed in the Galvez Building, using the Galvez Parking Garage, placement of servers in the Information Services Building, and additional network connectivity costs. As well, $500,000 of this funding is passthrough funding to the Louisiana Rural Water Association. DEQ Environmental Trust Fund (ETF) fees generate approximately $50 million annually. The department intends to reduce their expenditures and use a currently projected $9.7 M FY 10 end of year balance in ETF to provide a funding "bridge" in FY 11. DEQ anticipates that their expenditures will be sustainable with their ETF collections in FY 12.

Examples of entities not currently operating at full cost recovery:

Dept. of Transportation & Development (DOTD): DOTD currently operates 7 ferries, not including the 3 ferries at the CCCD, at a total approximate cost of $11.5 million (FY 06-07 data includes: operating costs, capital costs, maintenance repair, insurance) for approximately 1.02 million vehicles, while it only collects approximately $240,000 in toll revenues. To the extent the DOTD began to operate the ferries on a full cost recovery basis, DOTD would have to increase the toll by an average of $9.45 per vehicle up to on average $11.20 per vehicle. Specific location increases per vehicle would be as follows: $152.75 - Melville, $22.09 - Reserve, $28.47 - White Castle, $12.16 - Duty, $10.98 - Cameron, $8.21 - New Roads, $6.38 - Plaquemine. Currently, DOTD subsidizes the ferry expenditures with Transportation Trust Funds (16-cent gasoline tax). The full cost recovery methodology, if applied, would shift the cost burden of the ferries from the tax payers of the 16-cent gasoline tax to the actual users of the service, the toll payers. The current ferry rate is $0.50 round trip per vehicle.

Dept. of Agriculture & Forestry: The department is currently providing for the eradication of boll weevils. The current financing mechanism for the program in FY 10 is $3.9 million state general fund and $1.4 million from the Boll Weevil Eradication Fund. The source of revenue for the Boll Weevil Eradication Fund is a $6.00 assessment paid on a per acre basis by the state's cotton farmers. The projected number of acres in FY 10 is 240,000 acres, which is projected to generate approximately $1.4 million to the Boll Weevil Eradication Fund. To the extent the boll weevil eradication program operates under full cost recovery, the assessment charge per acre paid by the farmers should increase up to approximately $22.00 per acre. The full cost recovery methodology, if applied, would shift the burden of the boll weevil eradication program from partially borne by the tax payers to fully borne by the cotton farmers through the increased assessment. Farmers would pay an additional $16.00 per acre annually. However, annual expenditures for this program change year-to-year, which could impact the assessment.

Dept. of Public Safety-Office of Motor Vehicles (OMV): Historically, the OMV collects approximately $100.0 million in fees and self-generated revenues from the OMV Handling Fee and other various self-generated fees each fiscal year. For FY 10, the projected collections are: $93.4 million from various fees, $14.5 million from the OMV Handling Fee. These collections are utilized to fund the operating expenditures of the OMV and a portion of the operating expenditures of DPS-Office of Management and Finance (OMF), Louisiana State Police (LSP), DPS-Office of Legal Affairs (OLA) and the Louisiana Highway Safety Commission (LHSC). In addition, due to language that is currently within the appropriations bill, any remaining unexpended collected self-generated revenues do not revert to the state general fund and remain with the department. The average ending year fund balance within collected motor vehicle fees has been approximately $6.1 million. To the extent the OMV and the department operate under full cost recovery, the various motor vehicle fees should be reduced. The OMV only expends approximately 50%-55% annually of actual collected fees and the remaining funds are surplus or expended within the other agencies within the department. However, if full cost recovery is implemented, another means of financing, likely state general fund, would have to be identified in order to fund the other DPS agencies who currently expend OMV generated fees. Act 10 of '09 (HB 1) appropriated the following OMV generated fees to the following DPS agencies: $22.1 million - OMF, $38.8 million - LSP, $4.0 million - OLA, $0.1 million - LHSC.

Higher Education & Medicaid Program: To the extent the full cost recovery method is applied statewide and includes the Medicaid Program and Higher Education, there will likely be proposed increases in tuition and student fees as well as co-pays charged for current medicaid recipients. Such a change in the state's medicaid program would require approval by CMS. In addition, any increase in tuition would require legislative approval.

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